

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00

CIAE-00 INR-07 NSAE-00 FRB-03 IGA-02 AGRE-00 SAM-01

L-03 /074 W

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P 271204Z NOV 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 9273

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 16455

DEPT PASS AID

E.O. 11652: GDS

TAGS: ECON EG US

SUBJ: MEETING WITH DEPUTY PRIMIN KAISOUNI

SUMMARY: IN INITIAL CALL ON NEW DEPUTY PRIMIN FOR ECONOMIC AFFAIRS KAISOUNI, AMBASSADOR AND AID DIRECTOR BRIEFED HIM ON AID PROGRAM AND SOME OF PROBLEMS WE HAVE ENCOUNTERED, SPECIFICALLY, NEED TO ACCELERATE CIP UTILIZATION RATE. ALSO EMPHASIZED NEED FOR GOE TO BUDGET FOR CAPITAL PROJECTS AND FEASIBILITY STUDIES. ADDITIONALLY, URGED GOE TO PERMIT SOME AID FUNDS TO BE USED FOR PRIVATE SECTOR. FINALLY, STRESSED IMPORTANCE OF GOE'S ARRIVING AT SOME AGREEMENT WITH IMF AND WITH IBRD. KAISOUNI'S REACTION WAS GENERALLY POSITIVE. HE LISTENED ATTENTIVELY, READILY UNDERSTOOD MATTERS WE RAISED AND UNDERTOOK TO DO SOMETHING ABOUT PROBLEMS. HE INDICATED HIS EXPECTATION TO BE ABLE TO WORK OUT SOME ACCEPTABLE ARRANGEMENT WITH IMF, BUT ALSO CONFIRMED GOE HAS REQUESTED CG MEETING BE POSTPONED UNTIL MARCH, BY WHICH TIME HE HOPES SOME AGREEMENT WITH IMF WILL HAVE BEEN REACHED. KAISOUNI APPEARED CONFIDENT, ON TOP OF CONFIDENTIAL

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HIS JOB, WELL INFORMED AND READY TO MOVE

AGGRESSIVELY. END SUMMARY

1. HAD MY FIRST MEETING WITH DEPUTY PRIME MINISTER FOR ECONOMIC AFFAIRS KAISOUNI ON NOV. 25, AID DIRECTOR BROWN ACCOMPANIED ME. IN BROAD RANGING TWO-HOUR DISCUSSION, WE DISCUSSED PRIMARILY THE AID PROGRAM AND OUR CONCERNS ABOUT NEEDS TO IMPROVE RATE OF IMPLEMENTATION.

2. COORDINATION: I MENTIONED TO KAISOUNI MY CONVERSATIONS WITH THE PRESIDENT ABOUT NEED TO IMPROVE USE OF EXTERNAL AID AND IMPROVE COORDINATION OF EGYPTIAN ECONOMIC POLICY AND PRESIDENT'S RESPONSE THAT NEW ECONOMIC TEAM UNDER KAISOUNI'S LEADERSHIP HAD BEEN FORMED IN RESPONSE TO OUR CONTINUING SUGGESTIONS ON THIS SUBJECT. KAISOUNI INDICATED THAT HE WAS WELL AWARE OF THE CONCERNS WE HAD EXPRESSED IN THE PAST. HE HAD PURPOSELY AVOIDED TAKING A MINISTRY HIMSELF BECAUSE HE FELT HE COULD BEST PLAY HIS ROLE BY SERVING AS COORDINATOR OF THE FOUR MINISTRIES FOR WHICH HE IS CONCERNED: FINANCE, ECONOMY, PLANNING AND SUPPLY, AND COMMERCE. HE FELT HE HAD A STRONG TEAM IN THESE FOUR MINISTRIES. HE SAID HE WAS WELL AWARE THERE HAD BEEN DIFFERENCES OF VIEW BETWEEN THESE MINISTRIES IN PAST WHICH HAD VIITIATED THEIR EFFECTIVENESS, BUT HE FELT HE COULD NOW BRING THEM TO MOVE IN CONSISTENT DIRECTIONS, WORKING WELL TOGETHER.

3. UTILIZATION RATE: WE FOLLOWED WITH WIDE RANGING DESCRIPTION OF CONTENT OF US ASSISTANCE PROGRAMS INVOLVING PL 480, CAPITAL ASSISTANCE, TECHNICAL ASSISTANCE AND CIP. THOUGH TECHNICAL AND CAPITAL ASSISTANCE WERE INHERENTLY SLOW IN DISBURSING, I STILL NOTED NEED TO BE SURE THESE MOVE WELL ON SCHEDULE. OUR PARTICULAR CONCERN, HOWEVER, IS MOVEMENT ON CIP PROGRAM SINCE OF \$465 MILLION OBLIGATED, LESS THAN \$100 MILLION HAS BEEN EXPENDED. I EXPLAINED RATIONALE FOR SPLIT BETWEEN INTERMEDIATE CAPITAL GOODS AND SPARE
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PARTS/RAW MATERIALS IN CIP PROGRAM AND THAT THIS CAUSED SOME ADDITIONAL SLOWNESS IN PROGRAM, BUT THAT THERE HAD BEEN AGREEMENT ON THE NEED, FOR POLITICAL REASONS, TO ASSURE SOME VISIBILITY THROUGH THE CIP PROGRAM.

4. I NOTED THAT THERE REMAINED \$215 MILLION UNDER THE CIP PROGRAM FOR WHICH ALLOCATIONS TO IMPORTING

AGENCIES HAVE NOT YET BEEN MADE DESPITE REPEATED PROMISES FROM MINISTRY ECONOMY THAT SUCH ALLOCATIONS WOULD BE FORTHCOMING PROMPTLY. KAISOUNI AGREED TO LOOK INTO THIS ISSUE IMMEDIATELY AND ASSURED WE WOULD HAVE ALLOCATIONS PROMPTLY. IN THIS CONNECTION, AID DIRECTOR NOTED THAT ALL PAST ALLOCATIONS HAD BEEN FOR PUBLIC SECTOR, BUT WE HOPED THAT IN UPCOMING ALLOCATIONS SOME FUNDING COULD BE PROVIDED FOR PRIVATE SECTOR IMPORTS. KAISOUNI AGREED THIS SEEMED APPROPRIATE AND VOICED HIS BELIEF THAT PRIVATE SECTOR SHOULD BE STIMULATED TO PLAY MORE IMPORTANT ROLE IN PRODUCTIVE ENTERPRISE.

5. FOREIGN EXCHANGE CONTROL: WE NOTED THAT THERE WAS NEED FOR STRONGER CONTROL OVER TOTAL FOREIGN EXCHANGE UTILIZATION BY GOE SINCE THERE WERE A NUMBER OF TRANSACTIONS BEING FINANCED WITH GOE FOREIGN EXCHANGE WHICH COULD READILY FLOW THROUGH CIP PROGRAM. FOR EXAMPLE, WOOD PULP IMPORTS FROM US HAVE BEEN FINANCED BOTH THROUGH CIP AND WITH GOE FOREIGN EXCHANGE. ALSO, IN THE CASE OF A NUMBER OF INTERNATIONAL TENDERS, AMERICAN SUPPLIERS HAD WON AWARDS, BUT WERE NOT ELIGIBLE FOR AID FUNDING BECAUSE THE INTERNATIONAL TENDERS EITHER INCLUDED UNACCEPTABLE BOYCOTT LANGUAGE OR WERE HANDLED IN WAYS WHICH MADE THEM OTHERWISE INELIGIBLE FOR AID FINANCING. I SUGGESTED THAT GOE SHOULD REVIEW THESE INTERNATIONAL TENDERS CAREFULLY AND DETERMINE WHETHER THERE WERE NOT SOME CASES WHERE THEY SHOULD BE IMMEDIATELY SHIFTED TO CIP RATHER THAN INTERNATIONAL BIDDING. EVEN WHERE INTERNATIONAL TENDERS ARE INVOLVED, IF THESE COULD BE WORKED OUT IN COLLABORATION WITH AID AT THE

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TIME TENDER DOCUMENTS ARE DEVELOPED, THEN EVENTUAL AID FINANCING OF ANY AWARDS MADE TO US SUPPLIERS WOULD BE EASIER. KAISOUNI AGREED THESE POINTS SEEMED SENSIBLE AND THAT THERE OBVIOUSLY WAS NEED FOR GREAT CONTROL AND BETTER COORDINATION. HE NOTED THAT RESPONSIBILITY FOR FOREIGN EXCHANGE BUDGET WAS BEING SHIFTED FROM FINANCE TO ECONOMY AND THAT THIS SHOULD HELP THE PROCESS, BUT ADDITIONAL STEPS MAY ALSO BE NEEDED. HE ALSO STATED HIS INTENTION TO INTRODUCE GREATER "DISCIPLINE" INTO THE BUDGET.

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00

CIAE-00 INR-07 NSAE-00 FRB-03 IGA-02 AGRE-00 SAM-01

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P 271204Z NOV 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 9274

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 16455

DEPT PASS AID

6. LOCAL CURRENCY FINANCING: WE DISCUSSED THE NEED FOR GOE TO PROVIDE LOCAL CURRENCY FINANCING IN SUPPORT OF FEASIBILITY STUDIES NEEDED TO PLAN FUTURE CAPITAL PROJECTS AND IN SUPPORT OF CAIPTAL PROJECTS THEMSELVES. WE NOTED THAT IN APPARENTLY PLANNED BUDGET CUTBACKS FOR 1977, CERTAIN MINISTRIES, PARTICULARLY MINISTRY HOUSING AND RECONSTRUCTION, FEARED IT WILL NOT HAVE BUDGETARY RSEOURCES AVAILABLE TO FINANCE ITS SHARE OF FEASIBILITY STUDEIS WHICH AID AND GOE HAD LONG AGREED WERE CRITICALLY IMPORTANT. I URGED DEPRIMIN TO REVIEW BUDGETARY ALLOCATIONS TO ASSURE THAT LOCAL CURRENCY FUNDS WOULD BE AVAILABLE FOR THIS PURPOSE. KAISOUNI AGREED THAT THIS WAS AN APPROPRIATE RESPONSIBILITY FOR GOE. HE FEARED THAT IF THERE IS SIMPLY AND INCREASE IN MINISTRY BUDGETS, THIS WILL NOT NECESSARILY BE USED BY MINISTRY TO SUPPORT FEASIBILITY STUDIES, BUT PERHAPS FUNDS COULD BE EARMARKED IN SOME MANNER. HE ALSO RAISED QUESTION WHETHER FUNDS FOR SUPPORT OF FEASIBILYT STUDIES SHOULD NOT BE MADE AVAILABLE TO MINISTRY ECONOMY INSTEAD OF TECHNICAL MINISTRIES

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IN ORDER TO ASSURE CONTROL. THIS IS AN ISSUE WHICH
USIAD WILL INVESTIGATE MORE CAREFULLY AND FOLLOW

THROUGH ON WITH MINISTRY ECONOMY.

7. PRIVATE SECTOR: DURING DISCUSSION THESE
POINTS, DEPRIMIN STRESSED THE IMPORTANCE HE
BELIEVES SHOULD BE GIVEN TO PRIVATE SECTOR
IN FUTURE PRODUCTIVE INVESTMENT. HE WAS PLEASED
TO SEE PROPOSED FY 77 AID PROGRAM EMPHASIZES
INFRASTRUCTURE, SINCE HE FELT THAT IS WHERE
GOVERNMENT RESOURCES SHOULD FLOW. IN RESPONSE WE
NOTED THAT WE AGREED PRIVATE SECTOR MUST PLAY
IMPORTANT ROLE. BUT PRIVATE SECTOR MAY ALSO REQUIRE
FINANCING AND IT WOULD NOT APPEAR INAPPROPRIATE
FOR SOME INCREASING AMOUNT OF THAT TO COME FROM AID
FUNDS. WE NOTED THAT AG INTERNATIONAL, FOR
EXAMPLE, HAS INVESTMENT AUTHORITY APPROVAL FOR A
CITRUS PROJECT. ALTHOUGH US AND EGYPTIAN PARTNERS
INTERND INVEST SUBSTANTIAL EQUITY, AS MUCH AS
\$30 MILLION IN LOAN FUNDS MAY BE NEEDED. GOE
OFFICIALS IN THE PAST HAVE SAID THEY WOULD NOT OBJECT
TO AID PROVIDING SUCH LOAN FUNDS TO THIS JOINT
VENTURE, BUT ONLY IN ADDITION TO WHATEVER ELSE
MIGHT BE APPROPRIATE FOR EGYPT, WHICH MEANS IN
EFFECT NOTHING CAN BE DEVOTED TO THIS TYPE JOINT
VENTURE. KAISOUNI AGREED THAT SUCH A VIEW SHOULD
BE RECONSIDERED. WHILE HW WOULD CERTAINLY NOT
WANT A DISPROPORTIONATE SHARE OF AID FUNDS TO GO
TO PRIVATE RATHER THAN PUBLIC SECTOR, HE
FELT IT WOULD NOT BE UNREASONABLE TO USE SOME
PORTION OF TOTAL APPROPRIATIONS FOR DIRECT SUPPORT
OF MEANINGFUL JOINT VENTURE FINANCING.

8. IMF:IBRD: TURNING TO IMF AND IBRD, KAISOUNI
CONFIRMED THAT GUNTER OF IMF AND BEN JENK OF
IBRD WOULD BE IN CAIRO IN EARLY DECEMBER. WITHOUT
GOING INTO SUBSTANCE OF WHAT HE EXPECTED RESULTS
TO BE, KAIOUSNI STATED FLATLY THAT HE EXPECTS TO
BE ABLE TO COME TO ACCEPTABLE ARRANGEMENTS WITH IMF.
WITH REGARD TO IBRD, HE CONFIRMED THAT GOE HAS
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REQUESTED DELAY IN CG UNTIL MARCH. HE OPINED IT
IS ESSENTIAL THAT GOE BE IN A POSITION TO TALK
AFFIRMATIVELY ABOUT NEW ECONOMIC POLICY ORIENTATION
AND IMF REFORM PROGRAM AT CG MEETING. SINCE
ECONOMIC MINISTRIES ARE AT PRESENT HEAVILY INVOLVED

IN 1977 BUDGET PREPARATION, THEY WILL NOT HAVE TIME TO PROPOSE AND RECEIVE OVERALL GOE APPROVAL OF NEW POLICY POSITION IN TIMELY MANNER FOR A CG MEETING EARLIER THAN MARCH. I EXPRESSED GRATIFICATION AT HEARING ANTICIPATED PROGRESS. I NOTED USG HAS MADE EXTRAORDINARY EFFORTS TO INTEREST OTHER DONORS IN AID TO EGYPT, BUT THAT WE HAVE INCREASINGLY RUNNING INTO OPPOSITION BY DONORS WHO FEEL EGYPT MUST TAKE FURTHER STEPS TO RIGHT ITS OWN ECONOMIC POLICY. IF GOE CAN DO THIS EFFECTIVELY IN COOPERATION WITH IMF AND IBRD, WE BELIEVE DONORS ARE MUCH MORE LIKELY TO BE FORTHCOMING.

9. COMMENT: KAISOUNI APPEARED CONFIDENT, ON TOP OF HIS JOB, WELL INFORMED AND READY TO MOVE AGGRESSIVELY. HE HAD PREPARED HIMSELF WELL FOR OUR MEETING, HE LISTENED CAREFULLY AND TOOK COPIOUS NOTES AND PROMISED EARLY ACTION ON A NUMBER OF IMMEDIATE ISSUES, SUCH AS THE NEEDED ALLOCATIONS FOR CIP PROGRAM. WE WILL SEE WHAT THIS WILL LEAD TO IN NEAR FUTURE. I AM MEETING WITH MINECON HAMID AL-SAYEH TODAY TO FOLLOW UP AND HOPE TO MEET NEXT WEEK WITH NEW MINFINANCE AS SOON AS HE RETURNS FROM ABU DHABI, WHERE HE IS CURRENTLY CLOSING OUT HIS PREVIOUS RESPONSIBILITIES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MINISTERIAL MEETINGS, DIPLOMATIC DISCUSSIONS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CAIRO16455
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760440-1159
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976119/aaaaaheh.tel
Line Count: 304
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUN 2004 by CunninFX>; APPROVED <25 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MEETING WITH DEPUTY PRIMIN KAISOUNI SUMMARY: IN INITIAL CALL ON NEW DEPUTY PRIMIN FOR ECONOMIC AFFAIRS
KAISOUNI, AMBASSADOR AND AID DIRE
TAGS: ECON, EG, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006